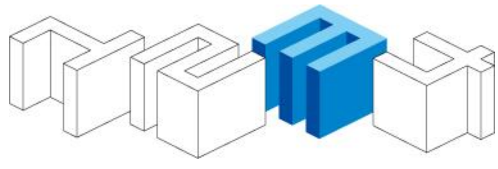
NORDECON

Financial report for the third quarter and nine months of 2016
(unaudited)



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Business name	Nordecon AS
Registry number	10099962
Address	Pärnu mnt 158/1, 11317 Tallinn
Domicile	Republic of Estonia
Telephone	+ 372 615 4400
E-mail	nordecon@nordecon.com
Corporate website	www.nordecon.com
Core business lines	Construction of residential and non-residential buildings (EMTAK 4120) Construction of roads and motorways (EMTAK 4211) Road maintenance (EMTAK 4211) Construction of utility projects for fluids (EMTAK 4221) Construction of water projects (EMTAK 4291) Construction of other civil engineering projects (EMTAK 4299)
Financial year	1 January 2016 – 31 December 2016
Reporting period	1 January 2016 – 30 September 2016
Council	Toomas Luman (chairman of the council), Andri Hõbemägi, Vello Kahro, Sandor Liive, Meelis Milder
Board	Jaano Vink (chairman of the board), Avo Ambur, Erkki Suurorg
Auditor	KPMG Baltics OÜ

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Nordecon Group at a glance

Nordecon AS (previous names AS Eesti Ehitus and Nordecon International AS) began operating as a construction company in 1989. Since then, we have grown to become one of the leading construction groups in Estonia and a strong player in all segments of the construction market.

For years, our operating strategy has been underpinned by a consistent focus on general contracting and project management and a policy of maintaining a reasonable balance between building and infrastructure construction. We have gradually extended our offering with activities that support the core business such as road maintenance, concrete works and other services that provide added value, improve our operating efficiency and help manage risks.

Nordecon's specialists offer high-quality integrated solutions in the construction of commercial, residential, industrial and public buildings as well as infrastructure – roads, landfill sites, utility networks and port facilities. In addition, the Group is involved in the construction of concrete structures, leasing out heavy construction equipment, and road maintenance.

Besides Estonia, Group entities are currently operating in Ukraine, Finland and Sweden.

Nordecon AS is a member of the Estonian Association of Construction Entrepreneurs and the Estonian Chamber of Commerce and Industry and has been awarded international quality management certificate ISO 9001, international environment management certificate ISO 14001 and international occupational health and safety certificate OHSAS 18001.

Nordecon AS's shares have been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006.

VISION

To be the preferred partner in the construction industry for customers, subcontractors, and employees.

MISSION

To offer our customers building and infrastructure construction solutions that meet their needs and fit their budget and, thus, help them maintain and increase the value of their assets.

SHARED VALUES

Professionalism

We are professional builders – we apply appropriate construction techniques and technologies and observe generally accepted quality standards. Our people are results-oriented and go-ahead; we successfully combine our extensive industry experience with the opportunities provided by innovation.

Reliability

We are reliable partners – we keep our promises and do not take risks at the expense of our customers. Together, we can overcome any construction challenge and achieve the best possible results.

Openness

We act openly and transparently. We observe best practice in the construction industry and uphold and promote it in society as a whole.

Employees

We inspire our people to grow through needs-based training and career opportunities consistent with their experience. We value our employees by providing them with a modern work environment that encourages creativity and a motivation system that fosters initiative.

Directors' report

Strategic agenda for 2016-2020

The Group's strategic business agenda and targets for the period 2016-2020

Business activities until 2020

- The Group will grow, mostly organically, with a focus on more efficient use of its existing resources.
- In Estonia, we will compete in both the building and the infrastructure construction segments.
- Our Estonian entities will be among their segments' market leaders.
- In Sweden, we will focus on general contracting in Stockholm and the surrounding area.
- In Finland, we will focus on general contracting and concrete works in Helsinki and the surrounding area.
- In Ukraine, we will focus on general contracting, primarily in Kiev and the surrounding area.

Employees until 2020

- We expect the TRI*M Index, which reflects employee satisfaction and commitment, to improve across the Group by 3 percentage points per year on average.
- We value balanced teamwork where youthful energy and drive complement long-term experience.
- We will recognise employees that are dedicated and responsible and contribute to the Group's success.
- We expect to raise operating profit per employee to at least 12 thousand euros.

Financial targets until 2020

- Revenue will grow at least 10% per year.
- The contribution of foreign markets will increase to 25% of revenue.
- Our own housing development revenue will account for at least 5% of our Estonian revenue.
- Operating margin for the year will be consistently above 3%.
- On average, at least 30% of profit for the year will be distributed as dividends.
- Return on invested capital (ROIC) will average 13%.

Changes in the Group’s business operations

Changes in the Group’s Estonian operations

There were no changes in our Estonian operations during the period under review. The Group was involved in building and infrastructure construction, being active in practically all market sub-segments. A significant share of the core business was conducted by the parent, Nordecon AS, which is also a holding company for the Group’s largest subsidiaries. In addition to the parent, construction management services were rendered by the subsidiaries Nordecon Betoon OÜ and AS Eston Ehitus which operates mostly in western and central Estonia.

As regards our other main business lines, we continued to provide concrete services (Nordecon Betoon OÜ), lease out heavy construction machinery and equipment (Kaurits OÜ), and render regional road maintenance services in the Keila and Kose maintenance areas in Harju county and in Järva and Hiiu counties (delivered by Nordecon AS, Järva Teed AS and Hiiu Teed OÜ respectively).

We did not enter any new operating segments in Estonia.

Changes in the Group’s foreign operations

Ukraine

The conflict between Ukraine and Russia, which broke out at the beginning of 2014, is influencing Ukraine’s political and economic environment also in 2016. Economic uncertainty continues to weaken the Ukrainian hryvnia against the euro although the fall of the hryvnia has slowed year on year. In recent years, our bidding activities in Ukraine have been intentionally conservative, with work undertaken in the capital Kiev and the surrounding area only. The ongoing military conflict, 700 km away in eastern Ukraine, has not had a direct impact on our operations, mostly because we right-sized the workforce during earlier periods of recession already and have accepted only such contracts whose risks have been reasonable under the circumstances. The situation in the Kiev region has stabilised, considering the backdrop, and companies have started to adapt to the new environment. Our nine-month operating volumes were comparable to a year ago.

Real estate development activities which require major investment have been suspended to minimise the risks until the situation improves (we have currently stakes in two development projects that have been put on hold). To safeguard the investments, the Group and the co-owners have privatised the plot held by the associate V.I. Center TOV and have mortgaged it to secure the loans provided by the Group.

Finland

There were no changes in our Finnish operations during the period. The Group’s subsidiary Nordecon Betoon OÜ and its Finnish subsidiary Estcon Oy continued to provide subcontracting services in the concrete work sector.

Sweden

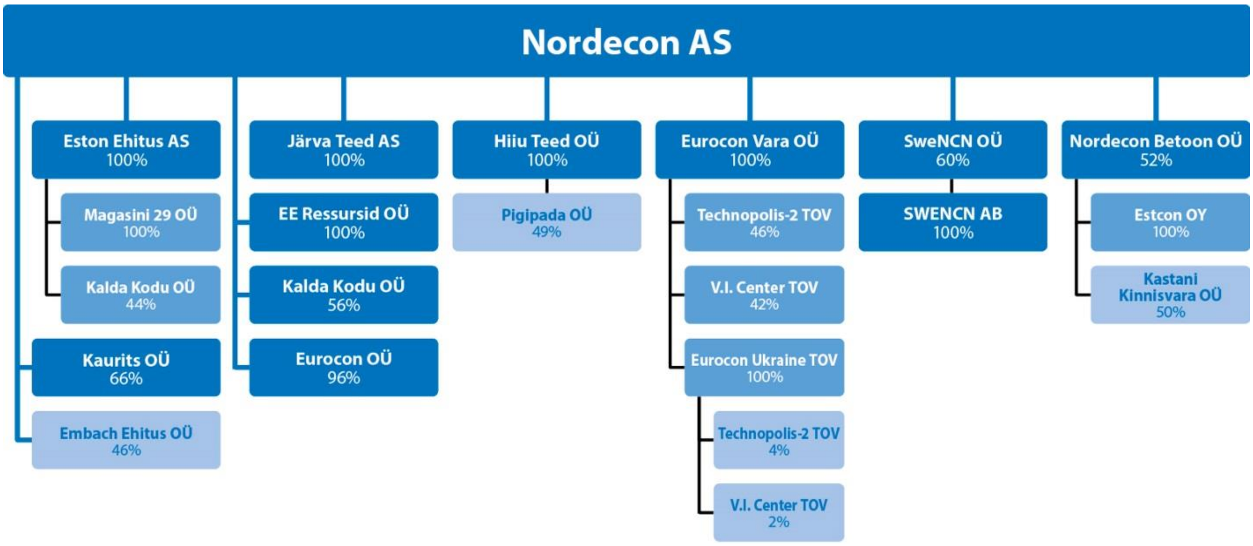
In contrast to last year when the main focus was on preparatory activities, in 2016 we have started providing construction services: we are performing two contracts where we act as the general contractor. In the future, we are going to focus on developing the organisation and active sales in order to win new contracts.

Latvia and Lithuania

During the period, there were no changes in our Latvian or Lithuanian operations. We have no subsidiaries incorporated in Latvia and no construction contracts in progress in Latvia or Lithuania. The activities of our Lithuanian subsidiary, Nordecon Statyba UAB, have been suspended.

Group structure

The Group's structure at 30 September 2016, including interests in subsidiaries and associates*



* The chart does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, Infra Ehitus OÜ, OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7, OÜ Paekalda 9, Eurocon Bud TOV, Instar Property Ukraine TOV, Nordecon Statyba UAB and the associate Unigate OÜ which are currently dormant. The first three were established to protect former business names. Nor does the chart include investments in entities in which the Group's interest is less than 20%.

Disposal of a subsidiary

In May 2016, Nordecon Betoon OÜ (in which the Group's ownership interest is 52%) sold its wholly-held subsidiary OÜ Mapri Projekt, which was dormant.

Financial review

Financial performance

Nordecon Group ended the first nine months of 2016 with a gross profit of 8,591 thousand euros (9M 2015: 6,301 thousand euros) and a gross margin of 6.4% (9M 2015: 5.5%). Despite growing competition, we succeeded in improving the gross margin year on year. Most of the profit was earned by the Buildings segment which raised its gross margin from 5.4% to 8.2%. The performance of the Infrastructure segment whose gross margin plummeted to 3.6% (9M 2015: 8.9%) remained less than satisfactory. The segment's weak results are mainly attributable to a lack of self-performed projects (such as major earthworks) during the winter season and the third-quarter gross margin, which was weaker than a year ago. Taking into account the market situation where projects eligible to EU funding are still in the start-up phase and competition in the road construction segment is exceptionally stiff, we expect that in 2016 the profitability of the Infrastructure segment will remain lower than last year.

On securing long-term contracts, we remain alert to the risks resulting from growth in input prices and strive to prioritise, where possible, the contracts' expected profitability over revenue growth.

Administrative expenses for the first nine months of 2016 totalled 4,629 thousand euros. Compared with the same period last year, administrative expenses grew (9M 2015: 3,418 thousand euros), primarily due to Nordecon's expansion to the Swedish market and higher profitability, which increased the provisions made for performance bonuses. The ratio of administrative expenses to revenue (12 months rolling) was 3.8% (9M 2015: 3.3%), remaining below the target ceiling of 4% of revenue.

Operating profit for the period was influenced by the write-down of other receivables by 409 thousand euros (see note 12) due to the entry into force of the final judgement on the Group's dispute with Teede REV-2 AS over the performance of the Koidula border crossing point contract in 2010 when our then venture partner ceased to fulfil its obligations and we had to complete the contract on our own. Although in essence the outcome of the litigation which ended in June was positive for Nordecon, some of the Group's claims were rejected. Our nine-month operating profit was 3,292 thousand euros (9M 2015: 2,815 thousand euros) and EBITDA amounted to 4,723 thousand euros (9M 2015: 4,187 thousand euros).

Adverse movements in the euro/hryvnia exchange rate gave rise to exchange losses that were smaller than a year earlier. During the period, the Ukrainian currency weakened by around 10%, which meant that Group entities whose functional currency is the hryvnia had to restate their euro-denominated liabilities. Exchange losses reported in finance costs totalled 251 thousand euros (9M 2015: 375 thousand euros). The same movements in the exchange rate increased the translation reserve in equity by 239 thousand euros (9M 2015: 389 thousand euros) and the net effect of the exchange differences on the Group's net assets was a loss of 12 thousand euros (9M 2015: a gain of 14 thousand euros).

The Group's net profit amounted to 3,315 thousand euros (9M 2015: 2,317 thousand euros), of which net profit attributable to owners of the parent, Nordecon AS, amounted to 2,437 thousand euros (9M 2015: 2,482 thousand euros).

Cash flows

In the first nine months of 2016, operating activities resulted in a net cash outflow of 1,348 thousand euros (9M 2015: an outflow of 3,682 thousand euros). Although cash receipts from customers exceeded cash paid to suppliers, operating cash flow proved negative due to VAT paid and payments made to and for employees. Operating cash flow continues to be affected by the fact that neither public nor private sector customers are required to make advance payments while the Group has to make prepayments to subcontractors, materials suppliers, etc. In addition, cash inflow is reduced by retentions which extend from 5 to 10% of the contract price and are released at the end of the construction period only.

Investing activities produced a net cash inflow of 86 thousand euros (9M 2015: an outflow of 91 thousand euros). The largest line items were payments made for property, plant and equipment of 170 thousand euros (9M 2015: 414 thousand euros) and dividends received of 153 thousand euros (9M 2015: 108 thousand euros).

Financing activities generated a net cash inflow of 2,224 thousand euros (9M 2015: an inflow of 1,529 thousand euros). Our financing cash flow is strongly influenced by loan and lease transactions.

Proceeds from loans received amounted to 7,166 thousand euros, consisting of use of overdraft facilities and development loans (9M 2015: 7,124 thousand euros). Loan repayments totalled 1,520 thousand euros, consisting of scheduled repayments of long-term investment and development loans (9M 2015: 2,615 thousand euros). Investments in road construction equipment and a new asphalt concrete plant increased finance lease payments which totalled 1,831 thousand euros (9M 2015: 1,309 thousand euros). Dividends paid amounted to 1,068 thousand euros (9M 2015: 1,091 thousand euros).

At 30 September 2016, the Group's cash and cash equivalents totalled 7,288 thousand euros (30 September 2015: 6,558 thousand euros). Management's commentary on liquidity risks is presented in the chapter *Description of the main risks*.

Key financial figures and ratios

Figure/ratio	9M 2016	9M 2015	9M 2014	2015
Revenue (EUR '000)	133,570	113,553	120,936	145,515
Revenue change	17.6%	-6.1%	-10.2%	-9.8%
Net profit (EUR '000)	3,315	2,317	3,250	174
Net profit attributable to owners of the parent (EUR '000)	2,437	2,482	2,607	179
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.08	0.08	0.08	0.01
Administrative expenses to revenue	3.5%	3.0%	3.3%	3.5%
Administrative expenses to revenue (rolling)	3.8%	3.3%	3.4%	3.5%
EBITDA (EUR '000)	4,723	4,187	5,871	5,769
EBITDA margin	3.5%	3.7%	4.9%	4.0%
Gross margin	6.4%	5.5%	7.3%	6.2%
Operating margin	2.5%	2.5%	3.6%	2.7%
Operating margin excluding gain on asset sales	2.4%	2.3%	3.5%	2.4%
Net margin	2.5%	2.0%	2.7%	0.1%
Return on invested capital	6.8%	5.0%	6.5%	2.1%
Return on equity	9.0%	6.2%	9.0%	0.5%
Equity ratio	33.2%	35.9%	34.2%	40.1%
Return on assets	3.3%	2.3%	3.0%	0.2%
Gearing	28.3%	33.4%	33.4%	25.5%
Current ratio	1.05	1.07	1.05	1.03

As at	30 Sept 2016	30 Sept 2015	30 Sept 2014	31 Dec 2015
Order book (EUR '000)	133,846	76,261	92,455	125,698

Revenue change = (revenue for the reporting period / revenue for the previous period) – 1 * 100

Earnings per share (EPS) = net profit attributable to owners of the parent / weighted average number of shares outstanding

Administrative expenses to revenue = (administrative expenses / revenue) * 100

Administrative expenses to revenue (rolling) = (past four quarters' administrative expenses / past four quarters' revenue) * 100

EBITDA = operating profit + depreciation and amortisation + impairment losses on goodwill

EBITDA margin = (EBITDA / revenue) * 100

Gross margin = (gross profit / revenue) * 100

Operating margin = (operating profit / revenue) * 100

Operating margin excluding gain on asset sales = ((operating profit – gain on sales of non-current assets – gain on sales of real estate) / revenue) * 100

Net margin = (net profit for the period / revenue) * 100

Return on invested capital = ((profit before tax + interest expense) / the period's average (interest-bearing liabilities + equity)) * 100

Return on equity = (net profit for the period / the period's average total equity) * 100

Equity ratio = (total equity / total liabilities and equity) * 100

Return on assets = (net profit for the period / the period's average total assets) * 100

Gearing = ((interest-bearing liabilities – cash and cash equivalents) / (interest-bearing liabilities + equity)) * 100

Current ratio = total current assets / total current liabilities

Performance by geographical market

In the first nine months of 2016, Nordecon earned around 7% of its revenue outside Estonia compared with 4% in the same period last year. The contribution of foreign markets has increased through revenue generated in Sweden. The contribution of the Ukrainian market has remained relatively stable. Finnish revenues result from concrete works in the building construction segment.

	9M 2016	9M 2015	9M 2014	2015
Estonia	93%	96%	94%	96%
Sweden	4%	0%	0%	0%
Ukraine	2%	3%	2%	3%
Finland	1%	1%	4%	1%

Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive reliance on a single market. However, conditions in our chosen foreign markets are also volatile and have a strong impact on our current results. Increasing the contribution of foreign markets is on Nordecon's strategic agenda. Our vision of our foreign operations is described in the chapter *Outlooks of the Group's geographical markets*.

Performance by business line

Segment revenues

We strive to maintain the revenues of our operating segments (Buildings and Infrastructure) in balance as this helps disperse risks and provides better opportunities for continuing construction operations in more challenging circumstances where one sub-segment may experience noticeable shrinkage.

Nordecon's revenue for the first nine months of 2016 totalled 133,570 thousand euros, a roughly 18% increase on the 113,553 thousand euros generated in the same period last year. The overall downturn in the infrastructure construction market is also affecting our revenue structure. The revenue of the Buildings segment grew as anticipated, primarily thanks to contracts secured from the private sector, while the revenue of the Infrastructure segment decreased by around 16%, year on year, due to a lack of large-scale road construction projects. In the comparative period, we had two major road construction projects that generated a substantial amount of revenue (construction package 5 of the Tartu western bypass and the Keila-Valkse section of national road no. 8 Tallinn-Paldiski, km 24.9-29.5). However, thanks to a new asphalt concrete plant acquired at the beginning of the year, we were able to achieve strong growth in our asphalt concrete sales. Revenue from the sale of asphalt concrete amounted to 1,801 thousand euros (9M 2015: 621 thousand euros).

During the period, Buildings and Infrastructure generated revenue of 96,648 thousand euros and 32,111 thousand euros respectively. The corresponding figures for the first nine months of 2015 were 70,944 thousand euros and 39,789 thousand euros (see note 8). Our order book has a similar structure: at period-end 78% of contracts secured but not yet performed was attributable to the Buildings segment (9M 2015: 73%).

Operating segments*	9M 2016	9M 2015	9M 2014	2015
Buildings	72%	61%	63%	64%
Infrastructure	28%	39%	37%	36%

* In the *Directors' report*, the Ukrainian buildings segment and the EU buildings segment, which are disclosed separately in the financial statements as required by IFRS 8 *Operating Segments*, are presented as a single segment.

In the *Directors' report*, projects have been allocated to operating segments based on their nature (i.e., building or infrastructure construction). In the segment reporting presented in the financial statements, allocation is based on the subsidiaries' main field of activity (as required by IFRS 8 *Operating Segments*). In the financial statements, the results of a subsidiary that is primarily engaged in infrastructure construction are presented in the Infrastructure segment. In the *Directors' report*, the revenues of such a subsidiary are presented based on their nature. The differences between the two reports are not significant because in general Group entities specialise in specific areas except for the subsidiary Nordecon Betoon OÜ that is involved in both building and infrastructure construction. The figures for the parent company are allocated in both parts of the interim report based on the nature of the work.

Sub-segment revenues

Compared with a year ago, the revenue structure of the Buildings segment has changed considerably. In the period under review, the segment's strongest revenue contributors, in practically equal proportions, were the apartment buildings and public buildings sub-segments. In the public buildings sub-segment, growth was underpinned by the state's increasing investment in national defence. During the period, we completed the construction of the Piusa border guard station, a barracks at the Tapa military base, and a building complex at the Ämari air base and delivered to the customer phase I of Järveküla school. We continue the design and construction of the Lintsi warehouse complex and the reconstruction of Ugala Theatre in the city of Viljandi.

Most of our apartment building revenue resulted from general contracting. In Estonia, a major share of the apartment buildings we are working on is located in Tallinn. The period's main revenue contributors were the three phases of the Pikksilma homes in Kadriorg and the Meerhof 2.0 building complex at Pirita tee 20a. The contributions of foreign markets continue to grow as well. In Ukraine, we are completing the Lepse street residential quarter in Kiev and continue building a housing district in the city of Brovary in the Kiev region. In Sweden, we are building two apartment buildings in Stockholm.

The contribution of our own development projects in Tartu and Tallinn (included in the apartment buildings sub-segment) continues to increase slowly but surely. In the first nine months of 2016, our own development projects generated revenue of 3,012 thousand euros (9M 2015: 2,708 thousand euros). We have completed 4 apartment buildings in the first three development phases of our Tammelinn project in Tartu. In March, we began building phase IV which comprises a five-floor apartment building with 25 apartments. By the reporting date, around 90% of the apartments were already covered with notarised preliminary sale agreements (www.tammelinn.ee). By period-end, we had also sold 16 of the 20 apartment ownerships in the first three phases of our Magasini 29 development project in Tallinn (www.magasini.ee), 5 of them this year. We continue to build the development's fifth and last terraced house. In September, we began building two apartment buildings with a total of 30 apartments in Hane street in Tallinn. In carrying out our development activities, we monitor potential risks in the housing development market that stem from rapid growth in the supply of new housing as well as relative price increases with due care.

The volumes of the commercial buildings sub-segment, which used to dominate the Buildings segment for a long time, have declined considerably. We anticipated the shrinkage already at the end of last year. During the period, we completed and delivered on time the Veerenni business building in Tallinn and are completing the office and retail complex Arsenali Keskus in Tallinn.

Our industrial and warehouse facilities revenues have grown year on year. Private investment in industrial and warehouse buildings has increased. During the period, our largest projects were the construction of a warehouse for Riigiressursside Keskus in Tallinn, a production facility for Vecta Design in Pärnu, and KEVILI South Terminal (a cereals storage and handling complex). We continue to build an extension to the warehouse of Smarten and have started to build production and warehouse facilities for Harmet at Kumna, near Tallinn.

Revenue breakdown in Buildings segment	9M 2016	9M 2015	9M 2014	2015
Apartment buildings	32%	20%	14%	22%
Public buildings	31%	13%	6%	16%
Commercial buildings	15%	56%	43%	50%
Industrial and warehouse facilities	22%	11%	37%	12%

Similarly to previous years, in the first nine months of 2016 the main revenue source in the Infrastructure segment was road construction where we had mostly medium-sized and small projects. Our largest projects were the reconstruction of Majaka street in Tallinn and Meoma-Alatskivi and Rannamõisa-Kloogaranna road sections. We continue to render road maintenance services in the Järva and Hiiu counties and the Keila and Kose maintenance areas of the Harju county. Kose is a new area, where work started in February 2016. We also provided the State Forest Management Centre with forest road improvement services. We expect that road construction will remain the main revenue source in the Infrastructure segment through 2016 but the amount of its revenues will decrease compared with the previous year.

A decrease in EU support continues to affect our other engineering and environmental engineering sub-segments whose revenues have decreased by around one third year on year. In specialist engineering, there is no sign of major hydraulic engineering investments in the current year and addition of other complex engineering projects is also likely to be irregular.

Revenue breakdown in Infrastructure segment	9M 2016	9M 2015	9M 2014	2015
Road construction and maintenance	86%	82%	74%	81%
Other engineering	9%	13%	15%	14%
Environmental engineering	5%	4%	8%	4%
Specialist engineering (including hydraulic engineering)	0%	1%	3%	1%

Order book

At 30 September 2016, the Group's order book (backlog of contracts signed but not yet performed) stood at 133,846 thousand euros, a 76% increase year over year. Order books grew in both the Buildings and the Infrastructure segment. In the third quarter, Group companies secured new contracts of 53,714 thousand euros.

	30 Sept 2016	30 Sept 2015	30 Sept 2014	31 Dec 2015
Order book (EUR '000)	133,846	76,261	92,455	125,698

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 78% and 22% of the Group's order book respectively (30 September 2015: 73% and 27% respectively).

Compared with a year ago, the order book of the Buildings segment has grown by around 88%. Major growth has been posted by nearly all sub-segments. The order book is the largest in the apartment buildings sub-segment where growth is attributable to large contracts signed at the end of 2015, including those for the construction of the Meerhof 2.0 building complex at Pirita tee 20a in Tallinn, five apartment buildings in the city of Brovary in the Kiev region in Ukraine and a five-floor apartment building in Stockholm, Sweden. In 2016, we have also secured contracts for the construction of phase III in the Pikksilma homes development in Kadriorg, apartment buildings at Kopli 4a and 6, phase II of the development at Pirita tee 20a, and apartment buildings at Virbi 10 in Tallinn and an apartment building in the Nacka district in Stockholm. Growth in the order book of the public buildings sub-segment is mostly attributable to the construction of a depot at the Tapa military base and the reconstruction of Ugala Theatre in Viljandi as well as the contract secured in the third quarter of 2016 for building the armoured vehicle infrastructure, a canteen and a barracks at the Tapa military base. The growth in the order book of the industrial and warehouse facilities sub-segment is supported by the construction of an extension to the warehouse of Smarten and production and warehouse facilities for Harmet. After some decline, the order book of the commercial buildings sub-segment has also started to grow. In the second quarter, we signed large-scale contracts for the design and construction of the office premises complex Viimsi Äritare and the non-renovated part of the historical Luther furniture factory and the accompanying outdoor facilities at Vana-Lõuna 39 in Tallinn. In the third quarter, we secured a contract for the construction of a commercial building in the Rotermann quarter in Tallinn.

Compared with a year earlier, the order book of the Infrastructure segment has grown by 43%. The rise is largely underpinned by growth in the road construction sub-segment, which is supported by the contracts secured for the provision of road maintenance services in the Järva, Hiiu, and Kose road maintenance areas in the period 2016-2021. The order book of the road construction sub-segment is also influenced by the reconstruction of Logi street and the construction of new checkpoints and waiting areas in the north-western part of the Old City Harbour in Tallinn. The order book of the environmental engineering sub-segment, where we continue to perform a contract for the design and construction of an extension to the Kohtla-Järve wastewater treatment plant, has also grown somewhat. The order books of other Infrastructure sub-segments have decreased. According to our estimates, in 2016 the volume of public investments will not increase substantially, compared with 2015, and the new EU financial framework (2014-2020) will not have a visible impact on the construction sector. Thus, it is more likely than not that in 2016 the revenue of the Infrastructure segment will decrease compared with the year before (for further information, see the *Business risks* section of the chapter *Description of the main risks*).

However, in the light of order book growth and developments in our chosen markets, we forecast overall volume growth for 2016. In an environment of stiff competition, we pursue the policy of avoiding unjustified risks whose realisation in the contract performance phase would have an adverse impact on our results. Instead, we prefer to keep costs under control and focus on projects with positive prospects.

Between the reporting date (30 September 2016) and the date of release of this report, Group companies have secured additional construction contracts in the region of 16 041 thousand euros.

People

Staff and personnel expenses

In the first nine months of 2016, Nordecon Group (the parent and the subsidiaries) employed, on average, 679 people including 374 engineers and technical personnel (ETP). Compared with the same period in 2015, the number of workers decreased by around 3% due to shrinkage in the portfolio of self-performed projects while the number of engineers and technical personnel grew slightly.

Average number of the Group's employees (at the parent and the subsidiaries)

	9M 2016	9M 2015	9M 2014	2015
ETP	374	357	353	356
Workers	305	342	378	334
Total average	**679**	**699**	**731**	**690**

Our personnel expenses for the first nine months of 2016 including all taxes totalled 14,898 thousand euros (9M 2015: 13,056 thousand euros), a roughly 14% increase year over year. The growth in personnel expenses is attributable to the Group's expansion to the Swedish market, selective pay-rises and performance bonuses.

The service fees of the members of the council of Nordecon AS for the first nine months of 2016 amounted to 145 thousand euros and associated social security charges totalled 48 thousand euros (9M 2015: 120 thousand euros and 39 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 480 thousand euros and associated social security charges totalled 158 thousand euros (9M 2015: 329 thousand euros and 109 thousand euros respectively).

The fees (also for the comparative period) include the provisions made in the third quarter on the basis of the Group's financial indicators for payment of potential performance bonuses.

Labour productivity and labour cost efficiency

We measure the efficiency of our operating activities using the following productivity and efficiency indicators, which are based on the number of employees and personnel expenses incurred:

	9M 2016	9M 2015	9M 2014	2015
Nominal labour productivity (rolling), (EUR '000)	245.1	217.5	218.8	210.9
Change against the comparative period	12.7%	-0.6%	-5.5%	-4.3%
Nominal labour cost efficiency (rolling), (EUR)	8.2	8.2	7.5	8.0
Change against the comparative period	0.6%	9.8%	-21.9%	-0.6%

Nominal labour productivity (rolling) = (past four quarters' revenue) / (past four quarters' average number of employees)
Nominal labour cost efficiency (rolling) = (past four quarters' revenue) / (past four quarters' personnel expenses)

Nominal labour productivity increased year on year, mainly through revenue growth.

Share and shareholders

Share information

Name of security	Nordecon AS ordinary share
Issuer	Nordecon AS
ISIN code	EE3100039496
Ticker symbol	NCN1T
Nominal value	No par value*
Total number of securities issued	32,375,483
Number of listed securities	32,375,483
Listing date	18 May 2006
Market	NASDAQ OMX Tallinn, Baltic Main List
Industry	Construction and engineering
Indexes	OMX Baltic Industrials GI; OMX Baltic Industrials PI; OMX Baltic Construction & Materials GI; OMX Baltic Construction & Materials PI; OMX_Baltic_GI; OMX_Baltic_PI; OMX Tallinn_GI

* In connection with Estonia's accession to the euro area on 1 January 2011 and based on amendments to the Estonian Commercial Code which took effect on 1 July 2010 as well as a resolution adopted by the annual general meeting of Nordecon AS in May 2011, the company's share capital was converted from 307,567,280 Estonian kroons to 19,657,131.9 euros. Concurrently with the conversion, the company adopted shares with no par value.

In July 2014, Nordecon AS issued 1,618,755 new shares with a total cost of 1,581,523.64 euros, increasing share capital by 1,034,573.01 euros to 20,691,704.91 euros, and acquired the same number of own (treasury) shares for the same price. The share capital of Nordecon AS consists of 32,375,483 ordinary registered shares with no par value.

Owners of ordinary shares are entitled to dividends as distributed from time to time. Each share carries one vote at the general meeting of Nordecon AS.

Reduction of share capital

On 25 May 2016 the annual general meeting of Nordecon AS adopted a resolution on the reduction of the company's share capital and on 16 September 2016 the reduction was registered at the Commercial Register.

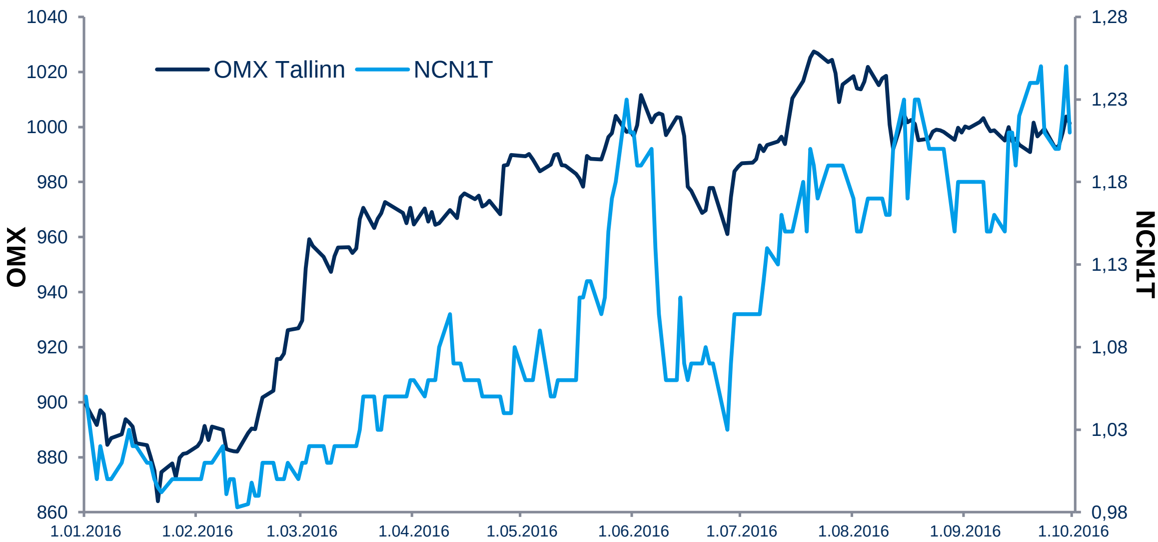
Based on the decision of the annual general meeting, the company's share capital was reduced by 971,264.49 euros, from 20,691,704.91 euros to 19,720,440.42 euros. Share capital was reduced by reducing the book value of the shares by 0.03 euros per share. The number of the company's shares remained the same and the book value of the shares decreased in proportion to the reduction of share capital. After reduction, the company's share capital amounts to 19,720,440.42 euros, consisting of 32,375,483 shares with no par value.

The reduction of share capital of 922,701.84 euros (0.03 euros per share) will be paid out to shareholders on 19 December 2016. No payments will be made to Nordecon AS for own shares held by the company.

Movements in the price and turnover of the Nordecon AS share in the first nine months of 2016

Movements in share price are in euros and daily turnover in the bar chart is in thousands of euros

Movement of the share price compared with the OMX Tallinn index in the first nine months of 2016



Index/equity	1 January 2016*	30 September 2016	+/-
OMX Tallinn	898.99	1,001.34	11.38%
NCN1T	EUR 1.05	EUR 1.21	15.24%

* Closing price on the NASDAQ OMX Tallinn Stock Exchange at 31 December 2015

Summarised trading results

Share trading history (EUR)

Price	9M 2016	9M 2015	9M 2014
Open	1.03	1.02	1.05
High	1.25	1.14	1.09
Low	0.98	0.98	0.93
Last closing price	1.21	1.00	1.01
Traded volume (number of securities traded)	974,459	971,467	1,453,387
Turnover, in millions	1.06	1.02	1.50
Listed volume (30 September), in thousands	32,375	32,375	32,375
Market capitalisation (30 September), in millions	39.17	32.38	32.70

Shareholder structure

Largest shareholders of Nordecon AS at 30 September 2016

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	50.99
Luksusjaht AS	4,236,282	13.08
ING Luxembourg S.A.	2,007,949	6.20
Rondam AS	1,000,000	3.09
SEB Pank AS clients	865,544	2.67
ASM Investments OÜ	519,600	1.60
State Street Bank and Trust Omnibus Account A Fund	447,365	1.38
Ain Tromp	378,960	1.17
SEB Elu- ja Pensionikindlustus AS	255,000	0.79
Genadi Bulatov	250,600	0.77

Shareholder structure of Nordecon AS at 30 September 2016

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	70.27
Shareholders with interest from 1% to 5%	5	9.92
Shareholders with interest below 1%	1,499	14.81
Holder of own (treasury) shares	1	5.00
Total	**1,508**	**100**

Shares controlled by members of the council of Nordecon AS at 30 September 2016

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	16,579,144	51.21
Andri Hõbemägi	Member of the Council	50,000	0.15
Vello Kahro	Member of the Council	10,000	0.03
Sandor Liive	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00
Total		**16,639,144**	**51.39**

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 30 September 2016

Board member		Number of shares	Ownership interest (%)
Jaano Vink (OÜ Brandhouse)*	Chairman of the Board	37,921	0.12
Avo Ambur	Member of the Board	32,322	0.10
Erkki Suurorg	Member of the Board	0	0.00
Total		**70,243**	**0.22**

* Companies controlled by the individual

Share option plan

The annual general meeting that convened on 27 May 2014 approved a share option plan aimed at motivating the executive management of Nordecon AS by including them among the company's shareholders to ensure consistency in the company's management and improvement of the company's performance, and enable the executive management to benefit from their contribution to growth in the value of the company's share. Under the share option plan, the company has granted options for acquiring up to 1,618,755 shares in Nordecon AS. The chairman of the board of Nordecon AS may acquire up to 291,380 shares, both members of the board may acquire up to 259,000 shares each and all other members of the executive staff may acquire up to 129,500 shares each. An option may be exercised when three years have passed since the signature of the option agreement but not before the general meeting has approved the company's annual report for 2016. In the case of members of the company's board, exercise of the options is linked to achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros).

To satisfy the terms and conditions of the option plan, in July 2014 Nordecon AS issued a total of 1,618,755 new shares with a total cost of 1,581,523.64 euros, increasing share capital by 1,034,573.01 euros to 20,691,704.91 euros, and acquired the same number of own (treasury) shares at the same price.

Description of the main risks

Business risks

The main factors which affect the Group's business volumes and profit margins are competition in the construction market and changes in the demand for construction services.

Competition continues to be stiff in all segments of the construction market and in 2016 public investment is not likely to grow substantially. Thus, builders' bid prices are under strong competitive pressure while the prices of construction inputs in the aggregate have not decreased noticeably. Even though unhealthily aggressive competition in building construction has started to recede thanks to growth in the volume of projects put out to tender, the slump in infrastructure construction is fuelling fierce competition for the limited number of contracts available. Bidders increasingly include not only well-known general contractors but also former subcontractors, a trend attributable to the state and local governments' policy to lower the qualification requirements of public procurement tenders. We acknowledge the risks inherent in the performance of contracts concluded in an environment of stiff competition. Securing a long-term construction contract at an unreasonably low price in a situation where input prices cannot be lowered significantly and competition is tough is risky because negative developments in the economy may quickly render the contract onerous. Thus, in price-setting we currently prioritise a reasonable balance of contract performance risks and tight cost control over revenue growth.

Demand for construction services continues to be strongly influenced by the volume of public investment, which in turn depends on the co-financing received from the EU structural funds. Total support allocated to Estonia during the current EU budget period (2014-2020) amounts to 5.9 billion euros, exceeding the figure of the previous financial framework, but the amounts earmarked for construction work are substantially smaller. Moreover, the allocations will have an impact on the construction sector in the second half of 2016 only.

Despite the above factors, we see opportunities for achieving overall year-on-year business growth in 2016: the rise in the Estonian building construction segment is increasingly supported by positive developments in our chosen foreign markets. Our action plan foresees using our resources (including some of the labour released from the Infrastructure segment) to increase the share of contracts secured from the private sector. According to its business model, Nordecon operates in all segments of the construction market. Therefore, we are somewhat better positioned than companies that operate in one narrow (and in the current market situation particularly some infrastructure) segment.

Our business is also influenced by seasonal changes in weather conditions, which have the strongest impact on infrastructure construction where a lot of work is done outdoors (road and port construction, earthwork, etc.). To disperse the risk, we secure road maintenance contracts that generate year-round business. Our strategy is to counteract the seasonality of infrastructure operations with building construction that is less exposed to seasonal fluctuations. Our long-term goal is to be flexible and keep our two operating segments in relative balance (see also the chapter *Performance by business line*). Where possible, our entities implement appropriate technical solutions that allow working efficiently also in changeable weather conditions.

Operational risks

To manage their daily construction risks, Group companies purchase contractors' all risks insurance. Depending on the nature of the project and the requests of the customer, both general frame agreements and special, project-specific insurance contracts are used. In addition, as a rule, subcontractors are required to secure performance of their obligations with a bank guarantee provided to a Group company or the Group retains part of the amount due until the contract has been completed. To remedy construction deficiencies which may be detected during the warranty period, Group companies create warranty provisions based on their historical experience. At 30 September 2016, the Group's warranty provisions (including current and non-current ones) totalled 1,117 thousand euros (30 September 2015: 1,880 thousand euros).

In addition to managing the risks directly related to construction operations, in recent years we have also sought to mitigate the risks inherent in preliminary activities. In particular, we have focused on the bidding process, i.e., compliance with the procurement terms and conditions, and budgeting. The errors made in the planning stage are usually irreversible and, in a situation where the price is contractually fixed, may result in a direct financial loss.

Financial risks

Credit risk

During the period, we recognised credit losses of 506 thousand euros of which 97 thousand euros resulted from the write-down of trade receivables and 409 thousand euros from the write-down of other receivables (see also the chapter *Financial performance*). In the comparative period, we did not incur any credit losses. The overall credit risk exposure of receivables is low because the solvency of all prospective customers is evaluated, the share of public sector customers is large and customers' settlement behaviour is consistently monitored. The main indicator of the realisation of credit risk is settlement default that exceeds 180 days along with no activity on the part of the debtor that would confirm the intent to settle.

Liquidity risk

The Group remains exposed to higher than usual liquidity risk. At the reporting date, the Group's current assets exceeded its current liabilities 1.05-fold (30 September 2015: 1.07-fold). The key factors which influence the current ratio are the classification of the Group's loans to its Ukrainian associates as non-current assets and the banks' general policy not to refinance interest-bearing liabilities (particularly overdraft facilities) for a period exceeding twelve months.

Due to the strained political and economic situation in Ukraine, we believe that the Group's investment properties in that country cannot be realised in the short term. Accordingly, as at the reporting date the Group's loans to its Ukrainian associates of 8,555 thousand euros are classified as non-current assets.

Interest-bearing liabilities make up a significant share of our current liabilities. Under IFRS EU, loan commitments have to be classified into current and non-current based on contract terms in force at the reporting date. At 30 September 2016, short-term loan liabilities totalled 17,057 thousand euros (30 September 2015: 23,566 thousand euros), including overdraft liabilities of 12,241 thousand euros (30 September 2015: 13,576 thousand euros) which will probably be refinanced after 12 months.

At the reporting date, the Group's cash and cash equivalents totalled 7,288 thousand euros (30 September 2015: 6,558 thousand euros).

Interest rate risk

Our interest-bearing liabilities to banks have both fixed and floating interest rates. Finance lease liabilities have mainly floating interest rates. The base rate for most floating-rate contracts is EURIBOR. Compared with the same period last year, interest-bearing liabilities declined by 3,881 thousand euros. Loan and factoring liabilities decreased (by 5,299 thousand euros) while finance lease liabilities increased (by 1,418 thousand euros). The growth in finance lease liabilities is mainly attributable to the acquisition of a new asphalt concrete plant. We use factoring to counteract the mismatch in the settlement terms agreed with customers and subcontractors. At 30 September 2016, interest-bearing liabilities totalled 24,993 thousand euros (30 September 2015: 28,874 thousand euros). Interest expense for the first nine months of 2016 amounted to 501 thousand euros (9M 2015: 585 thousand euros).

The main source of interest rate risk is a possible rise in the variable component of floating interest rates (EURIBOR, EONIA or the creditor's own base rate). In the light of the Group's relatively heavy loan burden this would cause a significant rise in interest expense, which would have an adverse impact on profit. We mitigate the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low. As regards loan products offered by banks, observance of the policy has proved difficult and most new contracts have a floating interest rate. We have entered into a derivative contract to hedge the risks resulting from changes in the interest rates of the finance lease contract underlying the acquisition of the new asphalt concrete plant.

Currency risk

As a rule, the prices of construction contracts and subcontracts are fixed in the currency of the host country, i.e., in euros (EUR), Ukrainian hryvnias (UAH), and Swedish kronas (SEK).

The hryvnia has been weakening because the political and economic environment in Ukraine continues to be strained due to the conflict between Ukraine and Russia which broke out at the beginning of 2014 and at the beginning of 2015 the National Bank of Ukraine decided to discontinue determination of the national currency's indicative exchange rate. In the first nine months of 2016, the hryvnia weakened against the euro by around 10%. For our Ukrainian subsidiaries, this meant additional foreign exchange losses on the translation of their euro-denominated loans into the local currency. Relevant exchange losses totalled 251 thousand euros (9M 2015: 375 thousand euros).

Exchange gains and losses on financial instruments are recognised in *Finance income* and *Finance costs* respectively. Translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses.

The reciprocal receivables and liabilities of our Ukrainian and non-Ukrainian entities which are connected with the construction business and denominated in hryvnias do not give rise to exchange losses. Nor do the loans provided to the Ukrainian associates in euros give rise to exchange losses that ought to be recognised in the Group's accounts.

Due to movements in the Swedish krona/euro exchange rate, translation of operating receivables and payables resulted in an exchange gain of 5 thousand euros for the period (9M 2015: nil thousand euros). The exchange gain has been recognised in *Other operating income.*

We do not use derivatives to hedge our currency risk.

Outlooks of the Group’s geographical markets
Estonia
Processes and developments characterising the Estonian construction market

- In 2016, public investments will not grow significantly and the extent to which they can be realised is still unclear. Although in the 2014-2020 EU budget period the support allocated to Estonia will increase to 5.9 billion euros (2007-2013: 4.6 billion euros), the portion that will influence the construction market will not increase. Instead, compared with the previous period, there will be a rise in allocations to intangible areas.

  Investments made by the largest public sector customers (e.g., state-owned real estate company Riigi Kinnisvara AS and the National Road Administration) that reach signature of a construction contract in 2016 will not increase substantially. Even though the Ministry of Defence has been a positive exception for builders by carrying out procurements which have made a significant contribution to market revival, the Estonian construction market (particularly infrastructure construction segments) will remain in relative stagnation. The situation is mitigated by the positive level of private investments in building construction.
- The long and painful process of construction market consolidation will continue, albeit slowly. In particular, this applies to general contracting in building construction where the number of medium-sized general contractors (annual turnover of around 15-40 million euros) is too large. Based on recent years’ experience it is likely that stiff competition and insufficient demand will cause some general contractors to go slowly out of business or shrink in size rather than merge or exit the market. According to our assessment, in recent years the process has decelerated due to customers’ (particularly public sector customers’) increasing desire to apply less stringent tendering requirements in order to increase competition and lower the price even though this increases their own risks related to security, quality, adherence to deadlines, and the builder’s liability.
- Competition is tough in all segments of the construction market, intensifying in line with market developments. The rise in the average number of bidders for a contract reflects this. However, the gap between the lowest bids made by winners and the average ones is narrowing, which shows that the quality of procurement documents is gradually improving and bidders’ prices are evening up. It is clear that in the current market situation the prices of construction inputs are not going to decrease noticeably and in order to succeed companies need to be efficient. Regrettably, the number of materials producers, suppliers, and subcontractors that are trying to survive or succeed in a difficult environment by dishonest means, e.g., by supplying goods with concealed defects or considerably lower quality than the one recorded in the product certificate, has been increasing quite rapidly. If the trend continues, both construction service providers and end-customers will have to apply strict and substantive quality control measures to make sure that the outcome meets their expectations. Unfair competition is putting visible pressure on prices and the quality of the construction service. Unfortunately, the problem is underpinned by the customers’ (including state institutions’ and state-owned companies’) increasing tendency to lower the bidders’ qualification requirements and prioritise quality more on paper than in practice.
- In new housing development, the success of a project depends on the developer’s ability to control the input prices included in the business plan and, thus, set sales prices that are affordable for prospective buyers. The prices of new apartments are relatively high compared to the standard of living and the banks’ lending terms are strict. This has held back rapid growth of the housing market but since the second half of 2015 the supply of new housing has grown significantly, slowing down the sale of apartments with relatively high sales prices. Similarly to previous periods, successful projects include those that create or fill a niche. In Tallinn and Tartu, the picture is encouraging but in the rest of the country activity is still relatively sluggish.
- There is a growing contrast between the stringent terms of public contracts, which require the builder to agree to extensive obligations, strict sanctions, various financial guarantees, long settlement terms, etc., and the modest participation requirements. Lenient qualification requirements and the precondition of making a low bid have made it easier for an increasing number of builders to win a contract but have heightened the contract performance risks taken by customers in terms of funding, deadlines and quality.
- The prices of construction inputs will remain relatively stable but growth in housing development has made it unlikely that the prices charged by local subcontractors, particularly in building construction, will decline. Certainly there are areas where major changes in the environment may trigger more abrupt price movements. The rise in housing construction has lengthened the supply periods of various essential materials and services, making it impossible to carry out all processes in the former optimistic timeframes. As a result, activities require more extensive planning or may need to be postponed.

- Persisting shortage of skilled labour (including project and site managers) may start restricting companies' performance capacities, having an impact on different aspects of the construction process including quality. Labour migration to the Nordic countries will remain steady and the number of job seekers who return to the Estonian construction market is not likely to increase considerably. All of the above will sustain pressure for a wage increase, particularly in the case of the younger and less experienced workforce whose mobility and willingness to change jobs is naturally higher.

Ukraine

In Ukraine, we provide general contracting and project management services to private sector customers in the segment of building construction. Political and economic instability continues to restrict the adoption of business decisions but construction activity in Kiev and the surrounding area has not halted. In 2016, we will continue our operations in the Kiev region and our current Ukrainian order book is larger than a year ago. Despite the armed conflict in eastern Ukraine, for Nordecon the market situation in Kiev has not deteriorated compared with a year or two ago. Hard times have reduced the number of inefficient local (construction) companies and when the economy normalises we will have considerably better prospects for increasing our operations and profitability. We assess the situation in the Ukrainian construction market regularly and critically and are ready to restructure our operations as and when necessary. Should the crisis spread to Kiev (which at the date of release of this report is highly unlikely), we can suspend our operations immediately. We continue to seek opportunities for exiting our two real estate projects that have been put on hold or signing a construction contract with a prospective new owner.

Finland

In Finland, we have provided mainly subcontracting services in the concrete segment but based on experience gained have started preparations for expanding into the general contracting market. The local concrete work market allows competing for projects where the customer wishes to source all concrete works from one reliable partner. Still, our policy is to maintain a rational approach and avoid taking excessive risks.

Sweden

In July 2015, Nordecon Group acquired a 100% stake in SWENCN AB, a company registered in the Kingdom of Sweden, and expanded to the Swedish market where we intend to offer mainly construction of residential and non-residential buildings, particularly in central Sweden. In October 2015, we signed the first contract on the construction of a five-floor apartment building in Stockholm. The cost of the work amounts to around 8.4 million euros. In 2016, we secured a contract for the construction of another, smaller apartment building in Stockholm. We will sustain efforts aimed at increasing our operations in Sweden and are currently moderately optimistic about the developments.

Latvia and Lithuania

It is not likely that we will enter the Latvian or the Lithuanian construction market in the next few years.

However, we do not rule out the possibility of carrying out certain projects in Latvia through our Estonian entities, with the involvement of partners where necessary. Undertaking a project assumes that it can be performed profitably.

We have suspended the operations of our Lithuanian subsidiary, Nordecon Statyba UAB, for the time being and are monitoring developments in the Lithuanian construction market. Temporary suspension of operations does not cause any major costs for us and does not change our interest to do business in the Lithuanian construction market on a project basis through a subsidiary operating in the local market.

Management's confirmation and signatures

The board confirms that the *Directors' report* presents fairly all significant events that occurred during the reporting period as well as their impact on the condensed consolidated interim financial statements, contains a description of the main risks and uncertainties, and provides an overview of significant transactions with related parties.

Jaano Vink	Chairman of the Board	10 November 2016
Avo Ambur	Member of the Board	10 November 2016
Erkki Suurorg	Member of the Board	10 November 2016

Condensed consolidated interim financial statements

Condensed consolidated interim statement of financial position

EUR '000	Note	30 September 2016	31 December 2015
ASSETS			
Current assets			
Cash and cash equivalents		7,288	6,332
Trade and other receivables	2	36,656	17,503
Prepayments		1,779	1,599
Inventories	3	23,941	23,603
Total current assets		**69,664**	**49,037**
Non-current assets			
Investments in equity-accounted investees		1,749	1,179
Other investments		26	26
Trade and other receivables	2	10,866	10,516
Investment property		4,929	4,929
Property, plant and equipment	4	11,417	9,623
Intangible assets	4	14,623	14,609
Total non-current assets		**43,610**	**40,882**
TOTAL ASSETS		**113,274**	**89,919**
LIABILITIES			
Current liabilities			
Borrowings	5, 6	17,057	15,715
Trade payables		38,666	22,538
Other payables		7,612	5,475
Deferred income		2,568	3,233
Provisions		522	825
Total current liabilities		**66,425**	**47,786**
Non-current liabilities			
Borrowings	5, 6	7,936	5,098
Trade payables		104	104
Other payables		126	96
Provisions		1,053	768
Total non-current liabilities		**9,219**	**6,066**
TOTAL LIABILITIES		**75,644**	**53,852**
EQUITY			
Share capital		19,720	20,692
Own (treasury) shares		-1,550	-1,582
Share premium		564	547
Statutory capital reserve		2,554	2,554
Translation reserve		1,597	1,358
Retained earnings		12,484	10,970
Total equity attributable to owners of the parent		**35,369**	**34,539**
Non-controlling interests		**2,261**	**1,528**
TOTAL EQUITY		**37,630**	**36,067**
TOTAL LIABILITIES AND EQUITY		**113,274**	**89,919**

Condensed consolidated interim statement of comprehensive income

EUR '000	Note	9M 2016	Q3 2016	9M 2015	Q3 2015	2015
Revenue	8, 9	133,570	59,741	113,553	44,342	145,515
Cost of sales	10	-124,979	-55,303	-107,252	-41,112	-136,484
Gross profit		**8,591**	**4,438**	**6,301**	**3,230**	**9,031**
Marketing and distribution expenses		-279	-61	-274	-52	-412
Administrative expenses	11	-4,629	-1,847	-3,418	-1,203	-5,026
Other operating income	12	148	51	289	36	464
Other operating expenses	12	-539	-79	-83	0	-124
Operating profit		**3,292**	**2,502**	**2,815**	**2,011**	**3,933**
Finance income	13	336	101	491	166	655
Finance costs	13	-785	-319	-965	-303	-4,383
Net finance costs		**-449**	**-218**	**-474**	**-137**	**-3,728**
Share of profit of equity-accounted investees		717	233	233	200	226
Profit before income tax		**3,560**	**2,517**	**2,574**	**2,074**	**431**
Income tax expense		-245	0	-257	0	-257
Profit for the period		**3,315**	**2,517**	**2,317**	**2,074**	**174**
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss						
Exchange differences on translating foreign operations		239	127	389	58	587
Total other comprehensive income		**239**	**127**	**389**	**58**	**587**
TOTAL COMPREHENSIVE INCOME		**3,554**	**2,644**	**2,706**	**2,132**	**761**
Profit/loss attributable to:						
- Owners of the parent		2,437	2,011	2,482	2,085	179
- Non-controlling interests		878	506	-165	-11	-5
Profit for the period		**3,315**	**2,517**	**2,317**	**2,074**	**174**
Total comprehensive income/expense attributable to:						
- Owners of the parent		2,676	2,138	2,871	2,143	766
- Non-controlling interests		878	506	-165	-11	-5
Total comprehensive income for the period		**3,554**	**2,644**	**2,706**	**2,132**	**761**
Earnings per share attributable to owners of the parent:						
Basic earnings per share (EUR)	7	0.08	0.07	0.08	0.07	0.01
Diluted earnings per share (EUR)	7	0.08	0.07	0.08	0.07	0.01

Condensed consolidated interim statement of cash flows

EUR '000	Note	9M 2016	9M 2015
Cash flows from operating activities			
Cash receipts from customers[1]		137,502	127,440
Cash paid to suppliers[2]		-119,130	-112,650
VAT paid		-4,643	-2,990
Cash paid to and for employees		-14,832	-15,373
Income tax paid		-245	-109
Net cash used in operating activities		**-1,348**	**-3,682**
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		-145	-414
Paid on acquisition of intangible assets		-25	0
Proceeds from sale of property, plant and equipment	4	97	238
Acquisition of a subsidiary		0	-8
Cash acquired on acquisition of a subsidiary		0	9
Acquisition of an investment in an associate		0	-1
Disposal of a subsidiary		6	0
Loans provided		-40	-97
Repayment of loans provided		40	67
Dividends received		153	108
Interest received		0	7
Net cash from/used in investing activities		**86**	**-91**
Cash flows from financing activities			
Proceeds from loans received		7,166	7,124
Repayment of loans received		-1,520	-2,615
Finance lease principal paid	6	-1,831	-1,309
Interest paid		-523	-580
Dividends paid		-1,068	-1,091
Net cash from financing activities		**2,224**	**1,529**
Net cash flow		**962**	**-2,244**
Cash and cash equivalents at beginning of year		**6,332**	**8,802**
Effect of movements in foreign exchange rates		-6	0
Increase/decrease in cash and cash equivalents		962	-2,244
Cash and cash equivalents at end of year		**7,288**	**6,558**

[1] Line item *Cash receipts from customers* includes VAT paid by customers.

[2] Line item *Cash paid to suppliers* includes VAT paid.

Condensed consolidated interim statement of changes in equity

EUR '000	Equity attributable to owners of the parent								
	Share capital	Treasury shares	Capital reserve	Share premium	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 2014	**20,692**	**-1,582**	**2,554**	**547**	**771**	**11,714**	**34,696**	**1,671**	**36,367**
Profit/loss for the period	0	0	0	0	0	2,482	2,482	-165	2,317
Other comprehensive income	0	0	0	0	389	0	389	0	389
Transactions with owners									
Dividend distribution	0	0	0	0	0	-923	-923	-138	-1,061
Total transactions with owners	**0**	**0**	**0**	**0**	**0**	**-923**	**-923**	**-138**	**-1,061**
Balance at 30 September 2015	**20,692**	**-1,582**	**2,554**	**547**	**1,160**	**13,273**	**36,644**	**1,368**	**38,012**
Balance at 31 December 2015	**20,692**	**-1,582**	**2,554**	**547**	**1,358**	**10,970**	**34,539**	**1,528**	**36,067**
Profit for the period	0	0	0	0	0	2,437	2,437	878	3,315
Other comprehensive income	0	0	0	0	239	0	239	0	239
Transactions with owners									
Dividend distribution	0	0	0	0	0	-923	-923	-145	-1,068
Reduction of share capital	-972	32	0	17	0	0	-923	0	-923
Total transactions with owners	**-972**	**32**	**0**	**17**	**0**	**0**	**-923**	**0**	**-923**
Balance at 30 September 2016	**19,720**	**-1,550**	**2,554**	**564**	**1,597**	**12,484**	**35,369**	**2,261**	**37,630**

Notes to the condensed consolidated interim financial statements

NOTE 1. Significant accounting policies

Nordecon AS is a company incorporated and domiciled in Estonia. The address of the company's registered office is Pärnu mnt 158/1, Tallinn 11317, Estonia. Nordecon AS's majority shareholder and the party controlling Nordecon Group is AS Nordic Contractors that holds 50.99% of the shares in Nordecon AS. The Nordecon AS shares have been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006.

The condensed consolidated interim financial statements as at and for the period ended 30 September 2016 have been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as adopted by the European Union. The condensed interim financial statements do not contain all the information presented in the annual financial statements and should be read in conjunction with the Group's latest published annual financial statements as at and for the year ended 31 December 2015.

The Group has not changed its significant accounting policies compared with the consolidated financial statements as at and for the year ended 31 December 2015.

Derivative financial instruments

The Group uses derivative financial instruments including swap contracts (swap transactions) to manage the risks arising from changes in interest rates. At initial recognition, such derivative financial instruments are measured at their fair value at the date of signature of the contract. After initial recognition, such instruments are re-measured to reflect changes in their fair value. Changes in fair value are recognised in profit or loss. When the fair value of the derivative is positive, the instrument is recognised as an asset. When the fair value of the derivative is negative, the instrument is recognised as a liability.

According to management's assessment, the condensed consolidated interim financial statements of Nordecon AS for the third quarter and first nine months of 2016 give a true and fair view of the Group's financial performance and the parent and all its subsidiaries that are included in the financial statements are going concerns. The condensed consolidated interim financial statements have not been audited or otherwise checked by auditors and contain only the consolidated financial statements of the Group.

NOTE 2. Trade and other receivables

EUR '000	Note	30 September 2016	31 December 2015
Current items			
Trade receivables		24,281	11,519
Retentions receivable		322	97
Receivables from related parties		34	211
Loans to related parties	14	279	305
Miscellaneous receivables		311	1,276
Total receivables and loans provided		**25,227**	**13,408**
Due from customers for contract work		11,429	4,095
Total current trade and other receivables		**36,656**	**17,503**

EUR '000	Note	30 September 2016	31 December 2015
Non-current items			
Loans to related parties	14	10,231	9,878
Other non-current receivables		635	638
Total non-current trade and other receivables		**10,866**	**10,516**

NOTE 3. Inventories

EUR '000	30 September 2016	31 December 2015
Raw materials and consumables	4,310	4,603
Work in progress	6,185	4,138
Goods for resale and properties held for development	12,233	12,762
Finished goods	1,213	2,100
Total inventories	**23,941**	**23,603**

NOTE 4. Property, plant and equipment and intangible assets

Property, plant and equipment

In the first nine months of 2016, the Group acquired new property, plant and equipment of 3,241 thousand euros (9M 2015: 1,943 thousand euros). The items consisted of equipment and construction machinery required for the Group's operating activities. A substantial portion of the additions was made up of a new asphalt concrete plant.

Proceeds from sale of property, plant and equipment amounted to 97 thousand euros (9M 2015: 238 thousand euros) (see the statement of cash flows) and sales gain on the transactions amounted to 88 thousand euros (9M 2015: 228 thousand euros) (note 12).

Intangible assets

In the first nine months of 2016, the Group did not conduct any significant transactions with intangible assets.

NOTE 5. Borrowings

Short-term borrowings

EUR '000	Note	30 September 2016	31 December 2015
Short-term portion of long-term loans		2,567	4,497
Short-term portion of finance lease liabilities	6	2,249	1,519
Short-term bank loans		12,241	7,556
Factoring liabilities		0	2,143
Total short-term borrowings		**17,057**	**15,715**

Long-term borrowings

EUR '000	Note	30 September 2016	31 December 2015
Long-term portion of long-term bank loans		3,924	1,960
Long-term portion of finance lease liabilities	6	4,012	3,138
Total long-term borrowings		**7,936**	**5,098**

NOTE 6. Finance and operating leases

EUR '000	30 September 2016	31 December 2015
Finance lease liabilities at end of reporting period	**6,261**	**4,657**
Of which payable not later than 1 year	2,249	1,519
Of which payable later than 1 year and not later than 5 years	4,012	3,138
Base currency EUR	6,192	4,657
Base currency UAH	69	0
Interest rates of contracts denominated in EUR [1]	2.0%-5.2%	2.0%-5.2%
Interest rates of contracts denominated in UAH	19%	-
Frequency of payments	Monthly	Monthly

[1] Includes leases with floating interest rates

Finance lease payments

EUR '000	9M 2016	9M 2015
Principal payments made during the period	1,831	1,309
Interest payments made during the period	120	109

Operating lease payments

EUR '000	9M 2016	9M 2015
Payments made for cars	619	607
Payments made for construction equipment	2,008	1,452
Payments made for premises	512	410
Payments made for software	139	131
Total operating lease payments	**3,278**	**2,600**

NOTE 7. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to owners of the parent by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by dividing the profit attributable to owners of the parent by the weighted average number of shares outstanding during the period, both adjusted for the effects of all dilutive equity instruments.

EUR '000	9M 2016	9M 2015
Profit for the period attributable to owners of the parent	2,437	2,482
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share (EUR)	0.08	0.08
Diluted earnings per share (EUR)	0.08	0.08

At 30 September 2016, Nordecon AS had no dilutive share options. Therefore, diluted earnings per share equal basic earnings per share.

NOTE 8. Segment reporting – operating segments

The Group's chief operating decision maker is the board of the parent company Nordecon AS. The board monitors the Group's internally generated financial information on a regular basis to better allocate the resources and assess their utilisation. Reportable operating segments are identified by reference to monitored information.

The operating segments monitored by the chief operating decision maker include both a business and a geographical dimension. The Group's reportable operating segments are:

- Buildings (European Union)
- Buildings (Ukraine)
- Infrastructure (European Union)

Other segments comprise insignificant operating segments whose results are not reviewed by the chief operating decision maker on the basis of internally generated financial information.

Preparation of segment reporting

The prices applied in inter-segment transactions do not differ significantly from market prices. The chief operating decision maker reviews inter-segment transactions separately and analyses their proportion in segment revenue. Respective figures are separately outlined in segment reporting.

The chief operating decision maker assesses the performance of an operating segment and the utilisation of the resources allocated to it through the profit generated by the segment. The profit of an operating segment is its gross profit that does not include any major exceptional expenditures (such as non-recurring asset write-downs). Items after the gross profit of an operating segment (including marketing and distribution expenses, administrative expenses, interest expense, and income tax expense) are not used by the chief operating decision maker to assess the performance of the segment.

9 months

EUR '000 9M 2016	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	93,843	3,163	32,436	4,577	134,019
Inter-segment revenue	-358	0	-325	-1,766	-2,449
Revenue from external customers	**93,485**	**3,163**	**32,111**	**2,811**	**131,570**
Gross profit of the segment	**7,814**	**76**	**1,167**	**123**	**9,180**

EUR '000 9M 2015	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	67,795	3,149	39,872	3,817	114,633
Inter-segment revenue	0	0	-83	-1,572	-1,655
Revenue from external customers	**67,795**	**3,149**	**39,789**	**2,245**	**112,978**
Gross profit/loss of the segment	**3,755**	**47**	**3,572**	**-159**	**7,215**

Third quarter

EUR '000 Q3 2016	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	36,837	1,521	19,138	2,477	59,973
Inter-segment revenue	-28	0	-53	-907	-988
Revenue from external customers	**36,809**	**1,521**	**19,085**	**1,570**	**58,985**
Gross profit of the segment	**2,452**	**32**	**1,800**	**238**	**4,522**

EUR '000 Q3 2015	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	20,815	974	21,294	2,036	45,119
Inter-segment revenue	0	0	-49	-915	-964
Revenue from external customers	**20,815**	**974**	**21,245**	**1,121**	**44,155**
Gross profit of the segment	**844**	**51**	**2,582**	**30**	**3,507**

Reconciliation of segment revenue

EUR '000	9M 2016	Q3 2016	9M 2015	Q3 2015
Total revenue for reportable segments	129,442	57,496	110,816	43,083
Revenue for other segments	4,577	2,477	3,817	2,036
Elimination of inter-segment revenues	-2,449	-988	-1,655	-964
Other revenue	2,000	756	575	187
Total revenue	**133,570**	**59,741**	**113,553**	**44,342**

Reconciliation of segment profit

EUR '000	9M 2016	Q3 2016	9M 2015	Q3 2015
Total profit for reportable segments	9,057	4,284	7,374	3,477
Total profit/loss for other segments	123	238	-159	30
Elimination of inter-segment profits and losses	-57	-9	-15	-4
Other profits and losses	-532	-75	-899	-273
Total gross profit	**8,591**	**4,438**	**6,301**	**3,230**
Unallocated expenses:				
Marketing and distribution expenses	-279	-61	-274	-52
Administrative expenses	-4,629	-1,847	-3,418	-1,203
Other operating income and expenses	-391	-28	206	36
Operating profit	**3,292**	**2,502**	**2,815**	**2,011**
Finance income	336	101	491	166
Finance costs	-785	-319	-965	-303
Share of profit of equity-accounted investees	717	233	233	200
Profit before tax	**3,560**	**2,517**	**2,574**	**2,074**

NOTE 9. Segment reporting – geographical information

EUR '000	9M 2016	Q3 2016	9M 2015	Q3 2015
Estonia	123,697	55,095	109,286	43,093
Ukraine	3,163	1,521	3,149	974
Finland	1,851	882	1,118	275
Sweden	5,212	2,269	0	0
Inter-segment revenues	-353	-26	0	0
Total revenue	**133,570**	**59,741**	**113,553**	**44,342**

NOTE 10. Cost of sales

EUR '000	9M 2016	9M 2015
Cost of materials, goods and services	111,373	94,540
Personnel expenses	12,048	11,126
Depreciation expense	1,406	1,352
Other expenses	152	234
Total cost of sales	**124,979**	**107,252**

NOTE 11. Administrative expenses

EUR '000	9M 2016	9M 2015
Personnel expenses	2,850	1,930
Cost of materials, goods and services	1,626	1,381
Depreciation and amortisation expense	25	20
Other expenses	128	87
Total administrative expenses	**4,629**	**3,418**

NOTE 12. Other operating income and expenses

EUR '000	9M 2016	9M 2015
Other operating income		
Gain on sale of property, plant and equipment	88	228
Other income	60	61
Total other operating income	**148**	**289**

EUR '000	9M 2016	9M 2015
Other operating expenses		
Loss on sale of property, plant and equipment	0	47
Loss from doubtful and uncollectible receivables	97	0
Other expenses	442	36
Total other operating expenses	**539**	**83**

NOTE 13. Finance income and costs

EUR '000	9M 2016	9M 2015
Finance income		
Interest income on loans	318	471
Foreign exchange gain	0	0
Gain on disposal of an investment in a subsidiary	3	0
Other finance income	15	20
Total finance income	**336**	**491**

EUR '000	9M 2016	9M 2015
Finance costs		
Interest expense	501	585
Foreign exchange loss	251	375
Other finance costs	33	5
Total finance costs	**785**	**965**

NOTE 14. Transactions with related parties

The Group considers parties to be related if one has control of the other or significant influence over the other's operating decisions (assumes holding 20% or more of the voting power). Related parties include:

- Nordecon AS's parent company AS Nordic Contractors and its shareholders;
- other companies of AS Nordic Contractors group;
- equity-accounted investees (associates and joint ventures) of Nordecon group;
- members of the board and council of Nordecon AS, their close family members and companies related to them;
- individuals whose shareholding implies significant influence.

The Group's purchase and sales transactions with related parties

EUR '000		9M 2016		9M 2015
Counterparty	**Purchases**	**Sales**	**Purchases**	**Sales**
AS Nordic Contractors	266	0	251	0
Companies of AS Nordic Contractors group	2	4	2	3
Companies related to owners of AS Nordic Contractors	530	0	538	0
Equity-accounted investees	3,769	38	3,362	52
Companies related to members of the council	62	0	46	0
Total	**4,629**	**42**	**4,199**	**55**

EUR '000		9M 2016		9M 2015
Nature of transactions	**Purchases**	**Sales**	**Purchases**	**Sales**
Construction services	3,769	0	3,362	0
Goods	518	0	513	0
Lease and other services	280	42	278	55
Other transactions	62	0	46	0
Total	**4,629**	**42**	**4,199**	**55**

During the period, the Group recognised interest income on loans to associates of 229 thousand euros (9M 2015: 364 thousand euros), on loans to a joint venture of 88 thousand euros (9M 2015: 86 thousand euros) and on a loan to a company of AS Nordic Contractors group of 9 thousand euros (9M 2015: 9 thousand euros).

Receivables from and liabilities to related parties at period-end

	30 September 2016		31 December 2015	
EUR '000	**Receivables**	**Liabilities**	**Receivables**	**Liabilities**
AS Nordic Contractors	0	10	0	9
Companies of AS Nordic Contractors group – receivables	1	0	0	0
Companies of AS Nordic Contractors group – loans and interest	272	0	263	0
Companies related to owners of AS Nordic Contractors	0	31	0	130
Associates – receivables and liabilities	33	1,037	211	1,821
Associates – loans and interest	8,562	0	8,344	0
Joint venture – loans and interest	1,676	0	1,576	0
Total	**10,544**	**1,078**	**10,394**	**1,960**

Compensation provided to the council and the board

The service fees of the members of the council of Nordecon AS for the first nine months of 2016 amounted to 145 thousand euros and associated social security charges totalled 48 thousand euros (9M 2015: 120 thousand euros and 39 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 480 thousand euros and associated social security charges totalled 158 thousand euros (9M 2015: 329 thousand euros and 109 thousand euros respectively).

The fees (also for the comparative period) include the provisions made in the third quarter on the basis of the Group's financial indicators for payment of potential performance bonuses.

NOTE 15. Litigation and claims

Final judgment on the Group's dispute with Kantauro OÜ

On 26 May 2015, Harju County Court rendered a judgment in the civil matter of Nordecon AS's action against Kantauro OÜ for recovery of debt. Based on an order placed by Kantauro OÜ, Nordecon AS built a shopping centre in Tallinn with a net area 15,000 square metres (Stroomi Keskus). The shopping centre was opened to customers on 4 December 2014 but, regrettably, the developer failed to pay the builder part of the amounts due under the contract. As Kantauro OÜ did not settle its debt despite repeated reminders, Nordecon AS went to court.

Taking into account that Kantauro OÜ did not respond to the action, the court made a judgment by default and satisfied Nordecon AS's claim in full. Kantauro OÜ was ordered to pay Nordecon AS the principal debt of 201 thousand euros and late payment interest accrued by the date the action was filed of 316 thousand euros as well as associated procedure costs. On 1 May 2015, Kantauro OÜ filed a petition against the judgment but on 26 June 2015 the county court issued a ruling by which the petition was denied. Kantauro OÜ paid Nordecon AS the principal debt and late payment interest as ordered by the court and on 13 July 2015 filed an appeal with the circuit court against the ruling by which its petition was denied.

On 31 August 2015, the circuit court annulled the ruling of Harju County Court of 26 June 2015 by which the petition was denied and proceedings were not reopened and referred the case back to the county court for new adjudication on the petition. On 7 September 2015, Harju County Court again denied the petition. On 21 September 2015, Kantauro OÜ filed an appeal with the circuit court against the ruling by which its petition was denied. On 21 October 2015, the circuit court annulled the ruling of Harju County Court of 7 September 2015 by which the petition was denied and proceedings were not reopened and again referred the case back to the county court for new adjudication on the petition. On 10 January 2016, the county court again denied the petition. On 11 February 2016, Kantauro OÜ filed an appeal against the ruling of the county court. On 26 February 2016, Nordecon AS submitted its statement on the appeal. On 25 April 2016, Tallinn Circuit Court denied Kantauro OÜ's appeal. On 12 May 2016, Kantauro OÜ filed an appeal with the Supreme Court which on 8 June 2016 did not accept the appeal.

Final judgment on the Group's dispute with Ilmarine Engineering OÜ

On 4 August 2016, the court dispute between Nordecon AS and Ilmarine Engineering OÜ in civil matter No. 2-14-55499 came to an end. The case focused on the question of whether Nordecon AS was obliged to pay AS Ilmarine an additional fee for the execution of Tallinn Seaplane Harbour construction works (Ilmarine Engineering OÜ acquired the claim from AS Ilmarine). The parties had agreed that the additional fee would be paid only if AS Ilmarine executed the works by a specified date. AS Ilmarine breached that obligation as the court established in civil matter No. 2-12-36887 requiring AS Ilmarine to pay a contractual penalty of 28,020 euros. Despite this, the court found in civil matter No. 2-14-55499 that AS Ilmarine was entitled to an additional fee although the contract terms for payment of the additional fee had not been met. Surprisingly the Supreme Court did not accept the cassation appeal filed by Nordecon AS and thus the judgements of Harju County Court of 3 July 2015 and Tallinn Circuit Court of 10 March 2016 which set aside the agreement on the additional fee entered into force. Nordecon AS was ordered to pay an additional fee of 175,132.80 euros along with late payment interest and the procedure costs of Ilmarine Engineering OÜ. Nordecon AS has complied with the court order.

Judgment on dispute regarding the Aruvalla-Kose procurement contract

On 17 November 2014, venture partners Nordecon AS and Ramboll Eesti AS filed a statement of claim against the state, i.e., Republic of Estonia, in connection with the contract for the procurement of the design and construction of the Aruvalla-Kose section of road E263. The customer, the National Road Administration, has accepted all construction works related to the Aruvalla-Kose road section and confirmed that all works were completed on time and the outcome meets the construction standards and regulations. The dispute relates to additional costs incurred because a method for measuring the aggregate filtration module (factor), which has a strong impact on road construction, was prohibited by the National Road Administration who unilaterally changed the contract performance terms, as well as the approvals it had previously granted, approximately a year after the conclusion of the contract. Nordecon AS believes that the National Road Administration as a representative of a professionally operating state must act properly and unequivocally and observe the principles of good faith. Estonia's economic environment and companies need assurance that the state acts properly, giving an example for the private sector, and observes the rules it has accepted and implemented on the conclusion of a contract throughout the performance of that contract. The contract for the construction of the Aruvalla-Kose road section was signed in spring 2011 and until August 2012 construction work was done using the filtration module measurement method (Sojuzdornii) specified in the work programme required by the contract which the National Road Administration had unconditionally accepted. However, in 2012, the customer, the National Road Administration, changed the filtration measurement methodology and also applied it to the contract which had been signed earlier, ignoring the work programme it had previously accepted. In their statement of claim, Nordecon AS and Ramboll Eesti AS request compensation for unforeseen costs incurred due to the change of the filtration measurement methodology of 3,495,604.70 euros plus late payment interest.

On 14 September 2016, Harju County Court rendered a judgement in which it declared Nordecon's claim unfounded, dismissed the claim and required Nordecon AS to cover the procedure costs. The judgement had no impact on the Group's financial performance. Nevertheless, due to the importance of the dispute for the entrepreneurial environment as a whole, Nordecon AS has decided to file an appeal against the judgement of the county court.

NOTE 16. Events after the reporting period

Eurocon OÜ

After the end of the reporting period, on 3 October 2016, Nordecon AS acquired an additional 4% stake in Eurocon OÜ, raising its ownership interest in the entity to 100%.

Merger of group entities

At a meeting held on 14 October 2016, the Group's council decided to approve the merger of Nordecon AS's wholly-held subsidiaries Järva Teed AS and Hiiu Teed OÜ and Nordecon AS's road maintenance and machinery division. The purpose of the merger is to bring the Group's road maintenance, heavy machinery, and mining segments under one management team and thereby eliminate various duplicate operations, streamline the management structure and clarify areas of responsibility. In addition to structural streamlining, the merger will allow to harmonise procedures and quality control systems, which will enhance operating efficiency and improve the Group's overall competitiveness. The merger of different support services will also result in cost savings. The merged entity will continue to operate in all the same segments, such as road maintenance and construction, land improvement, surface dressing, mining, manufacture of traffic control devices, and lease of heavy machinery. According to plan, all merger procedures will be carried out in 2016.

Statements and signatures

Statement of management's responsibility

The board of Nordecon AS acknowledges its responsibility for the preparation of the Group's condensed consolidated interim financial statements for the third quarter and nine months of 2016 and confirms that:

- the policies applied on the preparation of the consolidated interim financial statements comply with International Financial Reporting Standards as adopted by the European Union (IFRS EU);
- the consolidated interim financial statements, which have been prepared in accordance with financial reporting standards in force, give a true and fair view of the assets and liabilities, the financial position, the financial performance, and the cash flows of the Group consisting of the parent and other consolidated entities.

Jaano Vink	Chairman of the Board	10 November 2016
Avo Ambur	Member of the Board	10 November 2016
Erkki Suurorg	Member of the Board	10 November 2016